

SECRETARY OF DEFENSE WILLIAM J. PERRY  
REMARKS TO PRESS EN ROUTE TO MOSCOW, RUSSIA  
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I think it's easiest to describe by observing that it has two different strands to the trip that will be moving along in parallel. The first one of which involves our activities on this commission -- the Defense Diversification Joint Commission. In each of the four countries we go to, we're going to have commission meetings. In the case of Russia, this will be a second meeting of the commission. But in the case of the other three countries it will be their first meeting. I'll talk to you a little bit more about what we're going to be doing in those commission meetings -- what we're trying to accomplish in the commission.

The other strand of the trip, which will be going along in parallel with that, with each of the four countries we're visiting, is the discussion of a broad range of national security and defense interests in these four countries, with the prime ministers, the foreign ministers, the defense ministers, the people with whom we usually discuss those kind of topics. Now, we're doing that then in four different countries, Russia, Kazakhstan, Ukraine, and Belarus, and in two of those countries, we're taking side trips -- field trips so to speak.

In Kazakhstan we'll be going to Baikonur. We're going to the space launch center there. It's part of what they consider defense conversion, and they'd like to work cooperatively with us and with other countries to find ways of using that space launch facility for broad international space programs. Of course, you must understand that Baikonur was also the center for the Soviet Union's ICBM launch. They still have ICBM launches out at Baikonur. We may or may not see that part of Baikonur when we get there. It depends really on how much time we have. It's a very, very large test range. Much larger than the Atlantic missile range at Cape Canaveral.

They other field trip we're taking will be to Pervomaysk which is the SS-19, SS-24 ICBM launch sites, operational launch sites. That's where the missiles are being taken out of silos, the warheads removed from the missiles, the warheads conditioned and then put on the trains and moved to Russia for dismantlement and reduction of missile material. When President Kravchuk visited us the week before last, along with Minister Radetsky, the defense minister, they were describing that process and saying that they already had warheads on the trains on the way to Russia for dismantlement. I said that's wonderful, can I go down and see that process in action, underway. Several of the people at the table gulped a little bit, but President Kravchuk said, yes, absolutely, come right ahead. So we're really looking forward to that part of the trip. He has also invited me for a few other field exercises while we're there, which I'm seeing if I can squeeze into the schedule now. That's still up in the air at the moment. But the Ukrainians have been very forthcoming about opening up what they're doing and making it available for us to see -- things which we would never have imagined we could see as recently as a year or two ago.

That's a broad overview of the trip. Just a few particular points in the area of defense conversion, or the defense diversification commission -- we will be putting a primary emphasis on concrete, joint programs that we want to start early this year yet. In the case of Russia, we're pretty far along in planning for those, and we expect to actually be able to let out contracts for when we return from this trip that will launch these joint programs.

One set of joint programs is the formation of joint business partnerships between American companies that are in the commercial business, that is they develop, build and sell commercial products, and Russian defense companies. You can think of this as sort of like a Technology Reinvestment Program (TRP), where our job is to set up the ground rules for the partnerships, put in seed capital to help the partnerships get started, and then select the winning U.S. companies who put in proposals for the formation of partnerships with the Russian companies. This, if it's successful, will be a win, win, win. From the American company's point of view, it gives them funds that underwrites the cost of getting a joint venture started in Russia. It helps offset the risk of getting something like that started by putting up front-end money. From the Russian company's point of view, they not only get the benefit of that front-end investment through the American company, but they also get the advantages of the American company's marketing know-how and the know-how of Western business practices. From the Russian government's point of view, they get an opportunity to diversify some of the unused defense resources. So that's one big activity we'll be talking about. Here we hope to launch particular projects within weeks from now.

Q. Can you give us some examples?

A. The examples -- we're not inventing the projects. We're asking the American companies to form the partnerships with the Russian companies where they describe the projects.

Q. Can you give us an idea of what sort of things we're talking about -- MIG 29s to Waring blenders or what?

A. No. This is 100% up to the American companies to propose the products, to get the Russian companies agreement with them, which will be based on their facilities where they'll be able to do it. As long as it seems to us to be a plausible business venture, we're willing to fund it. We don't try to impose our judgment on whether this is a good product or a bad product. We don't have in the Defense Department the facility for judging the commercial viability of various products. We do ask the U.S. companies to invest their own money in this as well. We don't want this to be a WPA program. The fact that they're investing their own money gives us the reasonable assurance that the products that are proposed will have commercial viability.

Q. Is it roughly 50 to 50?

A. Roughly 50-50. We may give a variety in that, but they understand that they have a better chance of winning the competitions here if they have substantial investment of their own money. Same as the TRP in that regard.

Q. Mr. Secretary, are these companies, the former Soviet companies, formerly part of the government bureaucracy presumably, right? They were state-owned, and now are they privately-owned?

A. We have recommended, both to the Russians and to the American companies, that the best partnerships will be formed when the Russian enterprise that is going to do this has spun off from the larger, the parent enterprise and formed what the Russians call a joint stock company -- a separate enterprise. So the American company then will be forming its partnership with a spun-off enterprise. We're not making that as a hard and fast rule. In some cases they may actually want to form a partnership with a larger enterprise.

Q. Which would still be state-owned potentially?

A. It could be state-owned. We think the most attractive partnership is one where the Russian company and the American company can actually form a joint venture, and for that to happen the spin-off has to occur. There has to be a joint stock company with which to form the joint venture.

Let me make one other very quick comment on a related program which is the housing project. Here, we are inviting U.S. companies who are in the prefabricated housing business to select a Russian partner who has a large factory, large floor space, and form a partnership with them for the purpose of building prefabricated houses in this factory. The purpose of this program is not just to build prefabricated houses, it's to establish a prefabricated housing industry in Russia and also in Ukraine so that they can start generating large quantities of houses to meet one of the most pressing needs that they have today. There again, the win, win, win is there. The American prefabricating company gets the funds to do this. Part of their funds go not only to building some starting houses, but to training the Russians and setting up the process at the Russian factory. So the Russian company gains by having this free training and by having the process technology transferred to them. The Russian government gains because one of their biggest problems is they don't have enough housing for their retired troops. So those are the two major projects we're going to be discussing.

Q. Can I ask you how you address -- correct me if I'm wrong -- but about \$1.2 billion, about \$400 million a year over the last three years, including '94 has been set aside for defense conversion. How would you address criticism that only \$100 million in contracts, in actual contracts, have been signed and yet you're asking Congress for more money in '95, perhaps a half a billion dollars?

A. The criticism was well founded because that program had existed for two years, that was Fiscal '92 and Fiscal '93, by the time we come into office and there had been no agreements made, no essential progress made on the activity up to then. But, the

authorization, now for two years, totally \$800 million was there on the books. So a very early action, one which we took March of last year, was to start a program to define specific projects and to get the agreements of the Russians and the Ukrainians so we could move forward on this. So the first part of the criticism is well founded because the program was delayed two years before it got started. Secondly, the law has written into it rather stringent restrictions on the kind of agreements that you have to have made with the Russians, with the Ukrainians, and so on, before you can actually commit money. That took some number of months to do that, over probably a four-, five-, six-month period, to get all of those agreements signed. We did get those signed with the Russians last fall, and with the Ukrainians late last year. So that was the second delaying factor. The third, was getting specific project agreements.

We now have specific project agreements for \$800 million of that money. In other words, the full amount of '92 - '93 money has now been committed, but let me be careful to define, by committed I mean we have agreements between ourselves, the Russians, the Ukrainians, on specific projects. Now the next step is to get it under contract, and that has happened to a small degree so far, but those contracts are going to come in in an avalanche form in the next two or three months. I've no apologies for what we've done in this program. We've moved very aggressively and put an awful lot of energy in getting from where we were last March to where we are now one year later.

Q. But again, just for the great unwashed out there, you couldn't give us any kind of specific, not saying what companies are involved, but specific types of things we're talking about?

A. I mentioned the prefabricated housing. That's quite concrete, quite specific. Roughly half of the money that's going into defense conversion right now is going into the prefabricated housing. That was important enough that we separated that from the rest of the defense conversion and sort of earmarked that half of these funds ought to go for prefabricated housing. The other part of it, we did not earmark to any particular product. I know what I would propose if I were one of the companies in this area, but I don't what...

Q. What would you propose?

A. I shouldn't have said that.

Q. But you said it. What do you think they need? Do you have an item in mind that Perry enterprises would make? What do you think would sell there? What would be good?

A. The first item on my list are PCs, personal computers, which they are quite capable of building and the American companies have the designs for them, have the process technology for last generation computers, 386 - IBM 386 computers. That process technology, the designs, the components, are now obsolete in the U.S. We're not selling 386 computers anymore. At almost no cost you could transfer all of that over. One of the most advanced defense electronics factories has the capability for putting those together.

To do this, to be successful in doing this, this would have to be an all ruble enterprise. In other words, all of the components, all of the subsystems, would have to be built in Russia because you're going to sell it to Russians, and therefore, it has to be sold through rubles and with the currency fluctuation, with the dramatic devaluation relative to the dollar and so on, if you had to buy subsystems and components in the West, it wouldn't work. Now there's one company that has done exactly what I've described. That's a well-known company named McDonald's. They're not making PCs, they're making hamburgers. But if you look at why they're being so successful, they've done exactly what I've described to you. They've set up an all ruble operation. They grow their own potatoes, they grow their own cattle. Everything is done there. Consequently, all of their expenses are in rubles and that matches very well the fact that nearly all of the revenue is in rubles.

Q. What is your level of concern these days about the control of nuclear weapons from the former Soviet Union? Have things improved recently? I know you're going to witness this demonstration of the dismantlement.

A. This is an area we that have watched as closely as we know how to watch, and we have a lot of access now and a lot of knowledge, indeed, of what's going on there. My opinion is that the Russians who manage and control their nuclear weapons are very competent, very professional, and very responsible. That's the good news. The government structure above them has the problems which you have all seen in the newspapers. When they were lobbing artillery shells into the parliament last October, we worried a little about how that infrastructure, as it was under attack, might give guidance to the people who were controlling the weapons. You have to separate out those two parts of the problem. Everybody can have their own concern about what may happen at the top of the government, but the professionalism and the quality and the responsibility of the people who actually run the program is very good and still today is very good. That's my opinion and the opinion of the military people we have in our country who are working with them.

Q. Including Kazakhstan? There is some question as to the ability of Kazakhstan to handle this?

A. Yes. The strategic weapons in Kazakhstan are under the control, essentially, of these same Russian professionals who have been ...

Q. When the process winds down, at least the process as set now in the current treaties, winds down, is it correct that Belarus, Kazakhstan, and Ukraine would have no nuclear weapons? Is that the goal?

A. That's the goal. And Russia would keep some -- a reduced level of its arsenal. The Russian arsenal will be determined by START I, START II, and START III, if we ever get to one. The other three are getting to zero as soon as that can be done. Of course, our impetus right along has been to accelerate that process. They will become then non-nuclear signatories of the nonproliferation treaty. That's our goal.

Q. How long do you feel that will take?

A. A couple of years.

Q. You said an avalanche of contracts, you expect is possible in the coming months. Would you say hundreds of millions of dollars? Tens of millions?

A. I'm glad you asked the question. I want to separate out this \$800 million. The bulk of that money is in the nuclear dismantlement area, not in the defense conversion area. There's a relatively smaller portion of it which is going to defense conversion. Let me see if I can get my head straight on that, -- we're talking maybe about \$100 million of that \$800 million for defense conversion among all of the countries involved. 10% of the total funds roughly.

Q. How much of that would you expect to come through or contracts to be signed in the coming months or in the coming year?

A. All of it this year. Probably all of it in the next six months. I was only referring to the roughly \$100 million for defense conversion. All of that, I expect to be expended in the next six months. Then there will be another roughly \$100 million for next year and that will get expended as the year evolves.

Q. What's your read on the results of the IAEA inspection in North Korea?

A. I'd want to hold a judgment on that for another couple of hours because I think by tomorrow morning we will know. I think we'll have a report as to what their findings are. I would really hesitate to second guess or preempt their findings. We are very much dedicated to the notion that this is the IAEA job. It's not a U.S. unilateral activity. We have committed ourselves to accepting whatever judgment they make on that.

Q. You yourself have been second-guessed in a New York Post editorial which accused you of being too explicit in outlining the limits of air power. Can you give us your reaction to that criticism?

A. Yes. In fact I sent a letter to the editor of the Post that I was shocked at that criticism. Here somebody is spelling out what our policy is and what it should be and they were, just two or three months ago, writing blistering editorials because we were not stating what our policies were and what our reasons were for being in Somalia, say, or what we were planning to do in Bosnia. Somebody spells it out, and they say you're giving away secrets to the enemy. Well, this is baloney. The point that I made in the letter was that this is after all a democracy and we're involved in one of the most difficult kind of operations for our country, and our people, and our Congress to understand, limited war in a peacekeeping operation. There is not a huge ground swell of enthusiasm for doing any of these things. We simply owe it to the public and the Congress, and indeed, we will not be supported in the Congress, if we don't do this to explain to them what we're doing and what we're not planning on doing in those areas. The biggest danger from a military point of view in any of these limited military involvements is what we call "mission creep." That happened to

us to an extent in Somalia; it could happen in Bosnia; and I think it's my responsibility to spell out very, very clearly what we're doing, why we're doing that, and what we're not going to do, and why we're not going to do that. In terms of telling the Serbs something they didn't know, that's baloney. They know that air power is not a useful tool for going after troops that are standing on either side of a street in a city and firing at each other with automatic weapons. That's just not a useful tool. I should say though that, if a situation develops, in let's say Maglaj, for example, which makes the use of air power in this limited way we used in Sarajevo effective in limiting civilian casualties and pushing this to a peace process, I would propose it in a minute, and we would support it in a minute. The particular cities that were being proposed, the so-called "safe haven" cities, it was not an appropriate use of air power. I want to reiterate now what I reiterated then, we are not sending ground combat forces into Bosnia, and therefore, we should not make threats which implicitly suggest that we're going to send ground combat troops there.

Q. You talked in your speech at GW about the need for more rapid chain of command, and there's been some give and take on that in the past couple of days. Has anything come to your attention to indicate that there has been a decision that yes, now if a similar situation arises, the chain of command will be more fast-paced?

A. I discussed this this morning with Secretary Christopher, Tony Lake and Madeleine Albright, and we are first of all pleased by the position taken by the new U.N. commander, General Laprell. His position is that three hours delay is absolutely unacceptable. We have to get a streamlined chain of command. We decided our U.S. position on that, which we'll communicate through the U.N. through Madeleine, is that we strongly support the French ground commander and will do all that we can to facilitate that happening.

Q. Inaudible

A. Our position on that is it doesn't matter. If it's been broken, then we're ready to go ahead with the streamlined command. Even if it hasn't been broken, we have demonstrated this was an ineffective way of conducting close air support and therefore we ought to switch over to a streamlined command.

Q. Some in NATO have said the most efficient place for that authority to lie is with the commander of the troops actually being shelled, as opposed to say General Rose in Sarajevo. What's the U.S. position in terms of where the authority ought to lie?

A. My view on that is that I would like to see the chain of command request ...go from a forward air controller with the ground troops to Rose's office to Boorda — right to NATO. I think going through Rose is an appropriate step and our experience in that is that that has not been a delaying factor. That gives, you see, the request to somebody who knows not only what the ground situation is at that locality, but also who knows what's going on on the ground around there. Our big concern, in the beginning on this, is that any air strikes we draw in there has to be made with the full understanding that we're trying to protect the people on the ground. There's always a danger of attacking friendly forces down there. Therefore, if you just limit it to the person who is being attacked, you may not know what's

going on in an area a mile or two around that. That's why it's important I think to go up through Rose.

Q. Could you comment on the joint military operation aspect of your agenda this week? Or, a piece of it that has to do with arranging joint exercises with Russia.

A. No. We'll discuss them, but the planning for that is already well advanced. It's being done by the division that's in Germany and with the division commander in Russia. That's well out of the political stage at this time into the detail planning stage. We will discuss it and say this is a good example of what we've been talking about and we'll encourage thinking and planning on other things like that, but the detailed planning of it is already underway by the operational people.

Q. We can look forward to having a few words with you on Friday, I believe...

A. Yes, several times during the trip.

Thank you, Mr. Secretary.

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